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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY
FOR AUTHORIZATION FOR THE
PURCHASE OF GENERATING ASSETS
FROM SOUTHERN CALIFORNIA EDISON
AND FOR AN ACCOUNTING ORDER.

Docket No. E-01345A-10-0474

RUCO'S REPLY BRIEF

The Residential Utility Consumer Office ("RUCO") submits its Reply Brief in APS' ("APS" or the "Company") application for authorization to purchase the generating assets from Southern California Edison ("SCE") and for an accounting order.

An RFP is not needed to understand the benefits of APS' Application. In reply to the arguments regarding the need for APS to issue an RFP and the wisdom of replacing coal generation with some form of natural gas, RUCO has nothing further to add beyond the arguments made in RUCO's Opening Brief. RUCO's Opening Brief at 1-11. RUCO repeats its position that an RFP is not required because of a "genuine, unanticipated opportunity to acquire a power resource at a clear and significant discount..." (AAC R-14-2-705(B)(5) It would be a real loss to APS' ratepayers as well as the Navajo nation to jeopardize and ultimately lose this opportunity exploring gas alternatives when every indication in this record is

1 that APS' recommendation will be significantly cheaper than the gas alternatives and far
2 superior from an environmental standpoint than the current situation.

3
4 **The Commission should not approve APS' request to earn a return on the deferred accounts.**

5 In its Opening Brief, APS explains the purpose of an accounting order "...is to allow
6 APS to capitalize certain costs that would otherwise be expenses or foregone until a future rate
7 proceeding." APS Brief at 26. Once the Commission determines which costs should be
8 deferred, APS notes that the issue then becomes the determination of whether to allow a
9 return on the deferred balance. Id. APS compares the latter issue to the savings account
10 holder who "naturally expects to earn a compounded return." Id. The return APS seeks
11 includes an "11% cost of equity used in APS' last general rate case, at the ratio of 46.21% debt
12 and 53.79% equity also set in that rate case."¹ APS-15 at 9.

13 It is clear that the Company views this return on its equity investment as a natural
14 expectation like the bank customer views the 1% or 2% rate of interest he/she will earn on a
15 savings account. For obvious reasons, the comparisons as well as the Company's
16 expectations are severely flawed. First, the purpose of the accounting order, as Staff points
17 out, is not to guarantee the Company recovery of previously incurred costs or to guarantee
18 authorized deferrals. S-3 at 11. The purpose is to preserve for the Company the opportunity
19 to earn recovery of certain costs for future consideration. Id. Second, as RUCO mentioned in
20 its Opening Brief, such an allowance would be inappropriate as it would simply be

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24 ¹ Although this appears to be APS' request from Mr. Guldner's rebuttal testimony, at the hearing Mr. Guldner testified that if the transaction were to close after the prevailing rate case the Company's request would not be the 11% ROE but whatever the then prevailing rate would be. Transcript at 736

1 guaranteeing the Company a return rather than providing it with an opportunity to recover that
2 return via its operating efficiency. Finally, the comparison to the expectations of the savings
3 account customer is perhaps the best example to make RUCO's point on the
4 unreasonableness of the request. The savings account and the deferral account are
5 conceptually different with different customer expectations. The savings account customer
6 places money in his/her savings account knowing that he or she will be paid an interest rate on
7 the money he/she invests comparable to the prevailing rate of interest on savings accounts –
8 in other words the interest rate is guaranteed and the expectation of earning that rate is
9 justified. The same is not true with the deferral order where the Company will be deferring
10 expenses on previously incurred costs for future consideration. There is no guarantee of
11 recovery, much less a guarantee of a return on the recovery, and therefore there should be no
12 expectation. Moreover, should the Commission allow recovery and a return, the amount of the
13 return should not be guaranteed in advance and based on circumstances entirely different than
14 the Company's current circumstances. The savings account example also begs another
15 question – if savings accounts are averaging one or two percent interest, why should the
16 Commission guarantee APS an 11 percent return on equity based on a rate case decided
17 several years ago where the return on equity figure was the result of a Settlement between the
18 parties? The Commission should not make such a guarantee, and should deny the
19 Company's request to earn a return on the deferred accounts.

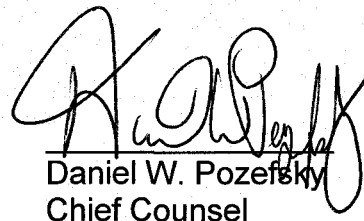
20 The Company cites back to several instances in the past where the Commission has
21 allowed the Company to defer its costs and earn a return on the deferred costs. Staff, in its
22 Opening Brief, provides its interpretation of the Commission's history on the issue. Staff Brief
23 at 17- 19. RUCO has little to add other than pointing out that over time the Commission has
24 looked at this on a case-by-case basis. In the 1980's when the Company was constructing the

1 Palo Verde Nuclear Generating Station the considerations were much different than present.
2 In the much more recent Sundance Generation Case (Decision No. 67504 – January 20,
3 2005), the Commission said that the Company should not be allowed to earn a return on its
4 investment retroactively to its acquisition date and allowing a deferral of a return on the
5 deferred balance in addition to deferral of costs prior to the plants inclusion in ratebase would
6 unreasonably skew the benefits of regulatory lag in favor of shareholders. Decision No. 67504
7 at 30. The same rings true here - the Commission should deny the Company's request to earn
8 a return on the deferred accounts.

9
10 **A delay in Closing that does not jeopardize the transaction is in the ratepayers' best interest.**

11 The purchase price to acquire SCE's interest is reduced \$7.5M every month the closing
12 is delayed past October 2012. Any delay that still provides sufficient time to meet the 2016
13 deadline for installation of environmental controls benefits the ratepayers. Furthermore, as
14 stated in its Opening Brief, APS provided no articulable reason why SCE would back out of the
15 deal due to a reasonable delay. Any time between October 2012 and the actual closing date,
16 SCE still has an interest in Four Corners and is receiving 48% of the low cost electricity
17 produced by Units 4 and 5.

18 RESPECTFULLY SUBMITTED this 14th day of October, 2011.
19

20
21 
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24

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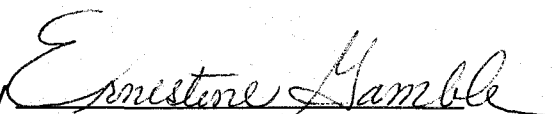
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